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Interim Report: Country Experimental Laboratories: *The First Six Months*

by

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This Working Paper summarizes the draft *Synthesis of Country Experimental Lab Reporting from October 1994 to March 1995.* Working Papers are not formally published and distributed, but interested readers can obtain a copy from the DISC.

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Introduction

Powerful forces, both internal and external, are pushing USAID to change. Congress is debating the Agency's future, the National Performance Review is mandating reinvention, and Agency leadership is calling for reform. In response to these forces, USAID is reengineering its operations systems, guided by four core values: managing for results, customer focus, teamwork and participation, and empowerment and accountability.

Country experimental laboratories (CELs) were set up for 1 year in October 1994 to build on the innovations of newly reengineered operations systems. Each CEL designed its own experiment to try various aspects of reengineering, such as program design, new obligation instruments, budgeting, procurement, incentives, awards, and performance assessment. They were asked to report periodically on what did and did not work and what they were learning.

This interim report summarizes CEL reporting during the first 6 months, up to March 1995. Though too early to have results, CEL reports show that change is happening. This is the beginning of a change process and it may be some time before outcomes are known. But the CELS have identified critical issues as they reengineer. Some of these issues include budget constraints that stand in the way of strategic planning and fiscal management, fears that managers will resist reengineering, and that central offices will not be able to deliver. Resolution of these and other identified issues will ease the transition of the entire Agency to reengineered systems beginning in October 1995.

This interim report highlights CEL start-up activities, organizational arrangements, leadership decisions, application of the core values, issues encountered, and observations. The last section identifies areas for further observation and learning to encourage more reporting in those areas. Though not conclusive, the information on CEL progress may help

other management units as they initiate reengineered systems and incorporate the four core values.

Background

The Operations Business Area Analysis Report, completed in fall 1994, laid out a blueprint for reengineering USAID's operations systems. That report adopts the definition of reengineering proposed by Michael Hammer and James Champy: "the fundamental rethinking and radical design of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed." (*Reengineering the Corporation,* 1993.) The report states that operational reforms envisioned in USAID include changes in 1) strategic planning, 2) budgeting and allocation of financial resources, 3) obligations and authorizations, 4) achieving results, 5) procurement, 6) judging results, and 7) personnel.

Purpose and Function of the Labs

Experimental laboratories were created to pioneer the transition to reengineered systems. The lab experience is expected to be invaluable in "working out the kinks" in reengineering and guiding other USAID units as the Agency proceeds to full implementation in October 1995.

Ten field Missions and two USAID/W offices were granted experimental laboratory status to test reengineering concepts. Mission labs are in Bangladesh, the Dominican Republic, Guatemala, Jamaica, Madagascar, Mali, Niger, the Philippines, Poland, and Senegal. USAID/W labs are the Democracy Center and the Reengineering Office.

The CELs were asked to report their progress, positive and negative, during the course of their 1-year experiments. This document synthesizes reports of the 10 Mission labs through March 1995. Given the latitude to report when and what they wanted, the CELs provided reports that differ in structure, content, and scope.

Most reports address the start-up phase of experiments. They examine, for example, how experiments were designed, who was involved, and how reengineering efforts were started. They also offer some preliminary issues and observations.

Findings

Scope of Experiments

The experiments range from two labs that restructured their program and physical layout (Mali and Senegal) to two that limited their experiment to a single strategic objective (Bangladesh and Guatemala). Two labs (Jamaica and Poland) do not indicate any experimentation with strategic planning. Their experiments appear to target program- and project-related management processes and procedures, such as procurement, deobligation and reobligation procedures, other obligation mechanisms, and human resource management. Three labs (Bangladesh, Guatemala, and Niger) report they included a formal mechanism for systematically monitoring lab progress and results.

Five labs (Dominican Republic, Mali, Niger, Philippines, and Senegal) are experimenting with strategic objective planning in all program areas. The Madagascar lab is looking exclusively at natural resources management and population; Guatemala is addressing health and population; and Bangladesh is experimenting with developing a new strategic objective in democracy. Three labs (Bangladesh, Madagascar, and Senegal) explicitly mentioned including design and, in some cases, implementation of results packages as part of their experiments.

Most labs reported including all the core values in their experiments. A few, however, did not mention customer focus or accountability. All are implicitly managing for results. Seven labs reported expecting to learn primarily about the effect of incorporating the core values into their operations and program activities. Operationally, a few labs expect to learn how to subsume ongoing activities under new strategic objectives and results packages, to make more effective use of foreign service nationals (FSNs) and personal service contractors (PSCs), and to achieve greater efficiencies from improved information systems.

The Start-up Process

The labs initiated reengineering with essentially three types of start-up activities: retreats or workshops, training, and task forces. Though each lab used at least one of the three to get started, most combined two or three methods. These appeared to serve as a catalyst in getting staff interested, informed, involved and, in some cases, committed to reengineering.

Mission staff were included in planning and

initiating reengineering to a noteworthy extent. Though the data are incomplete, all Mission staff in seven labs (Dominican Republic, Jamaica, Madagascar, Mali, Niger, the Philippines, and Senegal) appear to have been involved in planning reengineering. In the other labs (Bangladesh, Guatemala, and Poland), which limited reengineering to one program area, only part of the staff were involved. What is not known is the effect of the experiment on those not involved.

Staff in different labs are organized with varying degrees of complexity and hierarchy. Modern management concepts encourage flatter organizations with greater empowerment at lower levels. It is interesting to note, therefore, the degree to which labs have adopted a flatter organizational structure.

- Bangladesh and Niger appear to have little or no hierarchy in their lab experiments. Bangladesh has the simplest structure, a single team reengineering the design and implementation of a single strategic objective. Though Niger is reengineering all its strategic objectives, it only has a coordinator and three to four parallel teams or focus groups working on different aspects of reengineering.

- The lab in Poland, which receives substantial centralized direction from USAID/W, has a team in Poland, one in USAID/W, as well as a team composed of Small and Medium Enterprise (SMEs) grantees.

- Five labs (Dominican Republic, Guatemala, Jamaica, Madagascar, and Mali) appear to have at least three organizational levels.

- Two labs (Philippines and Senegal) appear to have four organizational layers.

The more layers, the more diffused the responsibility and the more people and time it takes to make decisions. The fewer the layers, therefore, the greater the empowerment and the higher the efficiency of decision-making. A strong organization requires building a culture in which people take responsibility for themselves and the organization. Entrepreneurial behavior cannot thrive in a patriarchal hierarchy (Peter Block, *The Empowered Manager*, 1987). For example, USAID Senegal reported clearing a PIO/T (Project Implementation Order/Technical) in 1 week because all the decision makers were empowered and on the same team.

Labs have not yet reported actual empowerment from level to level. More information is needed to assess the degree to which teams are empowered and how this varies by lab and task.

As for team composition, several labs noted greater inclusion of FSNs and PSCs (Bangladesh, Dominican Republic, Mali, Senegal) on teams, task forces and committees. (Though CELS did not explicitly report on the topic, most indicated indirectly that they have increased the breadth of representation of staff on teams, focus groups, and committees.) The Dominican Republic lab noted FSNs are on the core team that provides overall direction and coordination to four subteams, implying FSNs have been given higher level leadership responsibilities. Also of note, each of the 11 working groups in Mali requires representation from three or more technical offices and two or more support offices.

Regarding leadership, most labs have a core team or steering committee with a chairperson or coordinator providing direction. Madagascar and Senegal have senior staff groups leading reengineering, an arrangement that appears quite similar to traditional USAID leadership.

Six labs (Bangladesh, Jamaica, Madagascar, Mali, Niger, and Philippines) reported *how* their decisions regarding leadership were made. Each reflects different leadership arrangements:

- Mali: Staff *elected* a 15-person steering committee to provide overall direction and coordination. The steering committee chose coordinators. All working groups are co-led by two coordinators.

- Senegal: Mission director chairs the senior staff group. The acting deputy director heads the reengineering task force and coordinates formation and operation of other lab-related task groups. Office chiefs are the team managers.

- Philippines: Deputy Mission director appointed a chairperson and a 12-person steering committee.

- Niger: Senior management designated one officer as the reengineering coordinator. The senior managers and coordinator selected process owners to lead focus groups.

- Jamaica: Deputy Mission director appointed a working group and three team chairs. A part-time reengineering coordinator was hired.

- Bangladesh: An office director is team leader of the Mission's lab activities in one program area.

The Mali lab, which encompasses the entire Mission program, adopted the most participatory approach. They made leadership decisions by voting. In contrast, in Senegal, where the entire Mission is also a lab, the director and deputy director retain full leadership. In all but the first case, Mission senior managers made leadership decisions.

Thus, leadership levels in many of the labs reflect traditional USAID leadership patterns. This raises a question about the extent to which CELs are testing new leadership approaches.

Many labs stressed the importance of committed Mission leadership in guiding the lab and giving it the support required to inspire staff confidence in the experiment. At this point, data are lacking as to whether there is a relationship between the way lab leadership decisions are made, actual leadership arrangements, and the involvement, spirit, commitment, and success of lab participants.

Progress in Reporting the Four Core Values

The four core values underpin and drive the Agency's operational systems reengineering.

Managing for results: This core value was least often directly addressed in the lab reports. Bangladesh mentioned continuous monitoring of team process and progress toward results as a means of managing for results, Mali talked about "rebuilding" the program for results. Poland reported on efforts to increase grantee flexibility to manage for results and committed themselves to granting higher levels of funds to successful grantees. And Senegal discussed approaches to shaping strategic objectives so they are results oriented. More information on these and other successful approaches for managing for results will be important in the next six months of experiments.

Teamwork and participation: Every lab appears to be addressing this value. It appears to have generated the most interest and enthusiasm. All the labs have

formed teams and are working with the team concept. Many, such as the Jamaica lab, have received training in team concepts, team skills, and team building. Bangladesh received training on how teams work together effectively, how teams can design and implement a monitoring system for continuous self-assessment of their team process, and team rapid appraisal techniques for conducting a customer survey. To date, however, the CELs have not provided specific information that clearly demonstrates that training leads to more effective teamwork.

Four labs explicitly stated they will be experimenting with a team approach in all aspects of project management, designing and implementing strategic objectives and results packages, and working with grantees.

The Philippines and Senegal are relocating team members to new team space. In Senegal, teams replaced many of the traditional offices, which no longer exist. The controller, program, and administrative offices now work with teams rather than with sectoral offices. In the Philippines, the relationship of relocated teams to the existing office structure is not clear. Will teams replace traditional USAID office structure, or will they coexist with offices?

All the labs are experimenting with participation. Of those that incorporated it into the description of their labs, one (Dominican Republic) will focus specifically on participation of NGOs, since the majority of their program is implemented by NGOs. Another will assess participation in all aspects of project management, and a third will address participation in the development of its strategic objectives. What effect participation has had on quality, ownership, commitment, sustainability, timely productivity, or other aspects of the USAID program has not been reported.

Customer focus: Most of the labs indicate a customer focus, though very little has been reported. Labs mentioned using customer surveys to obtain customer feedback, collect information for program design, formulate program results frameworks, and develop program strategic objectives.

Empowerment and Accountability: Only a few labs offered specifics of how they would achieve empowerment. One said it will emphasize empowerment of FSNs and PSCs, another will experiment with delegating authority to teams, and another lab plans to increase grantee flexibility to modify programs to better

achieve results.

Two labs stated they will empower teams by developing a "charter," in one case, and a "contract" in the other between management and teams. The purpose is to provide a means for negotiating a firm agreement between management and each team. Of interest is whether accountability will be incorporated into the agreement as well.

The lab in Mali reported the highest degree of empowerment to date: Staff will *lead* the reengineering process to "rebuild" the Mission. What remains unknown is the *outcome* of empowered teams and groups, and whether there has been commensurate accountability. It will also be important to assess if and whether accountability is satisfactory to Mission management.

Role of Host Country Governments

Though six labs state they will either communicate with, share with, or include host country governments in their experiments, few have described when or how they will do so, or the outcome of their contact with host country governments. The labs in Guatemala, Niger, Philippines, and Senegal report having introduced reengineering concepts to host country officials. In the Philippines the goal is to design strategic objective agreements that shift USAID and the government focus to results, not inputs. Initial reaction from host country counterparts was reported as very positive. Niger and Senegal reported government officials participated in planning sessions.

In Guatemala, the Ministry of Health and the Social Security Institute are part of the team. The health ministry is determining how to institute customer-focused reform within the ministry itself and has asked USAID to help present the concepts of reengineering to a group of forward thinkers in the ministry.

Potentially, USAID’s ability to manage for results may be significantly influenced by the effect of reengineering on USAID’s relationships with host country governments.

Role of Lab Monitoring and Learning

Seven labs reported they are monitoring their experience and progress. Bangladesh developed a set of null hypotheses to measure the effect of the four core values. Guatemala developed a reporting chart. And four

CELs (Madagascar, Mali, Niger, and the Philippines) developed indicators to measure their progress. Many of these are formulated to measure actions or steps that lead to change (e.g., focus groups were formed), but not the change itself (e.g., partners use information from customers to develop service quality standards). New or additional indicators are needed to measure the results of new actions, processes, and procedures.

The Bangladesh lab developed several types of mechanisms to assess their experiment. The team wanted an evaluation methodology that would generate credible information in a cost-effective, replicable manner. First, to assess its progress, the team developed a "dashboard" of measures to monitor their team process periodically. The dashboard includes a results check, schedule dial, customer focus dial, team process dials and alert buttons. Second, the team adopted the use of the "Q sort" data collection methodology to collect information from program design participants on the relevance of the four core values to the program design process. Third, the team identified a measure of change in program design efficiency, the time it takes to complete each stage of the program design process. And, the team identified a measure for determining the skills and abilities required to design projects, such as subject area, technical, analytical, and leadership skills.

The hypothesis is that continuous, objective, systematic measurement of operational processes will lead to continuous improvements that, in turn, lead to results. Whether additional, better, or more reliable learning will result from measuring the process is yet to be determined.

Unresolved Issues

Reports identified difficulties the labs are encountering as they reengineer. These center around the core values, program management, obligations, budgeting, procurement, human resources, staff time, and USAID/W commitment and support. Judging by the number of times the issues were raised, participation, budgeting and procurement appear to present the most problems. Many issues raised in the procurement category are also associated with empowerment. Problems encountered by CELs include:

- Deobligation and reobligation authorities should implicitly and automatically be included in any strategic objective agreement, and all deobligated funds should

be retained in the Mission for reobligation.

- The budget process overshadows strategic planning and sound fiscal management because of excessive earmarking, unrealistic planning levels, and inflexible Global Bureau budgeting with the Missions, among other problems.

- There is a need for procurement authorities to waive source origin and nationality of goods and services, and for certification authority to assess the capabilities of host country contracting agencies.

- Reengineering raises personnel concerns about evaluating performance of team members, the effect of reengineering on careers and promotions, and the need for staff development.

- Lack of full support and commitment of USAID/W offices to reengineering may affect the morale, if not the progress, of CELs. One CEL noted "...the lack of knowledge, collaborativeness, and helpfulness of several USAID/W offices as we embarked upon this experiment."

To resolve these issues the CELs and USAID/W will have to work together to facilitate a smooth transition for the entire Agency.

CEL Observations on Reengineering

The CELs' preliminary observations center on leadership, vision and values, the core values, culture change, change processes, program management, procurement, and fears about and threats to reengineering. From these observations, the following can be tentatively stated:

Leadership: This may be the key factor in the quality and sustainability of change efforts. As one CEL noted, "The real key to accomplishing reengineering is to have a strong leader who understands and is fully committed to reengineering ... a leader who possesses both the commitment and charisma to inspire and the authority and willingness to kick butt."

Managing for results: CELs made the following observations:

- The Mission is less hierarchical and has clearer roles, responsibilities, and authorities.
- Length of time for clearances is shorter.
- Staff are accepting that they represent a function rather than a specific office in the Mission.
- Results packages, which detail how a team will achieve specific results, are fundamentally different from functional statements used by former offices.
- The experiment created a participatory environment for change in the Mission in a culture that has not typically been change oriented.
- Labs were able to reach agreement on where USAID has to go strategically, with input from *all* staff members and selected counterparts.
- A well-performed PRISM (Program Performance Information for Strategic Management) exercise is helpful in crystallizing Mission thinking about goals and objectives. Application of reengineering values, especially greater emphasis on results, is an excellent follow-on.
- Staff must concentrate more on monitoring and evaluation to show results.
- Missions need to fine tune, and in some respects redefine program strategy as they reengineer operations and customer service.
- Each Mission must be allowed to develop a plan for implementing the core values in a way that suits the Mission's operational, cultural, and political environment.

Teamwork: Part of the requirements are training, developing a flatter structure, enabling "coaches," realigning alliances, and learning new behaviors. Though it takes more time and effort to function as a team, there may be greater efficiencies and a stronger, better product over the long run.

Participation: Although participation isn't easy, CELs report the outcome may justify the means.

Obstacles include competing interests of participants, language barriers, a changing political context that leads to discontinuity in representation, and lack of in-country presence. Participation can be strengthened if new participants are given an introduction to the concept, facilitators are used to keep activities on track and help participants reach consensus, and there are incentives to participate.

Customer Focus: Involving customers is not easy. Challenges include lack of unanimous focus on the customer by all partners, inadequate customer representation, unclear role for customers in strategic planning, and difficulty in including customers in policy change activities.

Empowerment: Management support of actual empowerment may be a key factor in the success of reengineering. One example was the inclusion of FSNs as well as USDHs on the core team that coordinates reengineering in the Dominican Republic lab.

Procurement: It is possible to reduce the grants awards process from 18 months to 2 to 6 months. Authority to issue work orders against USAID/W indefinite quantity contracts may be one of the most useful authorities delegated to the field to date. The team approach cuts PIO preparation and clearance time.

Budgeting: This process continues to overshadow strategic planning efforts and sound fiscal management.

Reengineering process: The challenge is for a Mission to maintain sufficient stability to continue routine business while integrating operational and program changes. Establishing and maintaining clear, precise work priorities is of paramount importance.

Culture change: Missions may need to address culture change in the Mission first before expanding participation outside the Mission. USAID Senegal reported, "Although we believe that expanding outward to include our partners, intermediaries, and customers on our teams is absolutely necessary, our first task was to change the Mission’s culture."

Fear: Reengineering may be perceived by some managers as a threat to their power base. Some lab participants fear Central offices will be unable to deliver, and will not dismantle the instruments of control that stifle both field Missions and USAID/W.

Additional reporting by the CELs will be vital to

verify these initial impressions and to add to the reengineering information base.

Summary Observations

- Most CELs initiated reengineering with a retreat or workshop that in many labs involved all Mission staff. These events often served to spark the interest and enthusiasm of the staff.

- Though there has been a lot of activity around customer focus, there has not yet been any reporting on the effects of increased customer focus on program results.

- Many issues raised by the CELs are budget related. To resolve these issues before October 1995, the CELs and USAID/W must work together and take immediate action.

- The CELs raised many issues in the area of procurement, some linked to empowerment and accountability. Greater attention by and interaction between CELs and USAID/W will be required to address these issues.

- Lack of USAID/W reengineering support to CELs is demoralizing and hinders the progress of reengineering in the field. Continued, sustained focus on reengineering in USAID/W will be important to the ultimate success of reengineering throughout the Agency.

- Destabilization and uncertainty are part of any change. Resistance to change, fear of erosion of power by some, and fears that the Agency will be unable to deliver are real fears that need to be addressed, but need not impede the success of reengineering.

Questions for the Last Six Months

The following indicates areas for further observation, learning, and reporting:

- Each lab created and worked with one or more types of groups: focus groups, committees, work groups, and teams. There were many, many observations made regarding teamwork, but few issues raised. Is this an indication of an improved approach to working together, and will it endure over time? How successful and

effective is team training?

- The average lab developed at least three organizational layers. Is reengineering continuing the old hierarchical structure or will it lead to a flatter organization?

- There is evidence of tension between the old office structure and empowered teams. How will this be resolved? Will reengineering lead to a new team-based Mission organizational structure?

- If former office chiefs become new team leaders, as in some of the labs, will that result in the same traditional leadership? Alternatively, will team leaders be more flexible and linked to the team's task or will teams decide how leadership will be exercised? Can office chiefs or directors make the shift and become team leaders?

- The degree to which teams are truly empowered is not yet clear, but is an important aspect of the CEL experiments. What is the relationship between empowerment and the number of layers in the CELs?

- If teams are empowered, how has this affected program activities and has there been commensurate accountability?

- While representation on Mission teams appears to have included PSCs, FSNs, and staff at various levels, the inclusion of partners, stakeholders, and customers has been more limited. Does this indicate it is advisable that participation begin "in-house" before being expanded outside the Mission?

- Some labs have increased participation of partners. How has this affected program and product ownership, quality, sustainability, and commitment?

- Host country governments are slowly being exposed to or involved in USAID's reengineering. How has this affected intra-governmental relationships and program planning and implementation?

- Few labs reported having instituted formal, systematic mechanisms for monitoring lab progress. How does this affect the lab's

ability to learn for continuous improvement and to show results?

The Challenge

The challenge to all CELs, and to the Agency as it reengineers, is posed by the CEL in the Philippines: "Will we learn from mistakes and make appropriate and timely adjustments?" These experiments are off to a good start and have much to teach the rest of the Agency as they experiment with the newly reengineered systems. These words of the USAID/Mali director sum up the experience of the first six months for one CEL and are most encouraging to others as reengineering progresses:

> "I, personally, am amazed how far we have come in such a short time. Our reengineering effort has provided a whole new vision for our Mission and our program and identified new procedures that respond to the needs of our staff. More than anything our attitudes towards our colleagues and our potential to make a difference in Mali's development have changed. Perhaps the very high level of participation has sometimes made us feel the process has been inefficient—but look at the results: far from nibbling around the edges, we have fundamentally rethought what we want to do and how we are going to do it."

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